

Message Text

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INFO OCT-01 ISO-00 AF-08 ARA-06 EA-07 EUR-12 NEA-10 AID-05

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AMEMBASSY DUBLIN
AMEMBASSY ISLAMABAD
AMEMBASSY JIDDA
AMEMBASSY LAGOS
AMEMBASSY LONDON
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AMEMBASSY LUXEMBOURG
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AMEMBASSY MEXICO
AMEMBASSY NAIROBI
AMEMBASSY NEW DELHI
AMEMBASSY OTTAWA

AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY SANA
AMEMBASSY STOCKHOLM
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
INFO USMISSION GENEVA
USMISSION OECD PARIS

C O N F I D E N T I A L STATE 251805

GENEVA FOR PREEG

E.O. 11652: GDS

TAGS: EFIN, CIEC, OECD

SUBJECT: CIEC DISCUSSION ON DEBT

1. SUMMARY: CIEC DISCUSSION ON "THE PROBLEMS OF INDEBT-EDNESS OF DEVELOPING COUNTRIES" WILL BE AN IMPORTANT ITEM AT THE OCTOBER CIEC. WHILE ISSUES OTHER THAN DEBT WILL ALSO BE DISCUSSED, THE SUBJECT OF DEBT WILL RECEIVE PARTICULAR ATTENTION. IT IS VERY IMPORTANT THAT USG VIEWS ON THIS MAJOR ISSUE BE UNDERSTOOD FULLY BY OTHER CIEC PARTICIPANTS. BASED ON THE FOLLOWING BACK-GROUND INFORMATION, AND THE SUGGESTED TALKING POINTS ALSO PROVIDED, REQUEST YOU CONTACT APPROPRIATE HIGH OFFICIALS IN BOTH THE FOREIGN AFFAIRS AND FINANCE MINISTRIES TO EXPLAIN AND ENCOURAGE SUPPORT FOR USG POSITION.

BACKGROUND:

2. THE SEPTEMBER SESSION OF THE CIEC AGREED ON A WORK PROGRAM FOR THE SECOND HALF OF CIEC, AND THE SUBMISSION OF DEBT PROPOSALS BY THE US/EC AND G19 IN BOTH THE FINANCIAL AFFAIRS COMMISSION (FAC) AND THE DEVELOPMENT COMMISSION. CONFIDENTIAL

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SION. THERE ARE, HOWEVER, MAJOR DIFFERENCES BETWEEN THE PROPOSALS SUBMITTED BY THE US/EC AND THE G19.

3. THE US/EC PROPOSALS DISTINGUISH CLEARLY BETWEEN THE ACUTE DEBT CRISIS SITUATION (I.E., INVOLVING DEFAULT OR IMMINENT DEFAULT) WHERE DEBT RELIEF IS, IN EFFECT, A "LAST RESORT" MEASURE, AND A SECOND TYPE OF LONGER-TERM SITUATION WHERE AVAILABILITY AND MANAGEMENT OF RESOURCES HAMPERS DEVELOPMENT.

A. FOR THE ACUTE DEBT CRISIS SITUATION -- WHICH IS BEING ADDRESSED IN THE FAC -- THE US/EC PROPOSALS FOCUS ON CASE-BY-CASE ACTION BY THE TRADITIONAL CREDITOR CLUB MECHANISM. THE APPROACH RECOGNIZES THAT BOTH CREDITORS

AND DEBTORS HAVE RESPONSIBILITIES IN SUCH SITUATIONS, AND STRESSES THE IMPORTANCE OF THE DEBTOR COUNTRY'S OWN EFFORTS AT ECONOMIC ADJUSTMENT. IT ALSO SUGGESTS, PURSUANT TO UNCTAD RESOLUTION 94(IV), "FEATURES" WHICH COULD BE USED TO GUIDE RESCHEDULING OPERATIONS. THESE "FEATURES" ARE DESIGNED TO PROTECT THE INTERESTS OF BOTH DEBTORS AND CREDITORS, AND TO INSURE EQUITABLE TREATMENT AMONG DEBTORS.

B. THE ISSUE OF REMEDIAL MEASURES TO DEAL WITH LDC FINANCIAL SITUATIONS OF A LONGER-TERM NATURE (WHERE AN ADVERSE STRUCTURE OF THE BALANCE OF PAYMENTS CAN HAMPER DEVELOPMENT) IS BEING ADDRESSED IN THE DEVELOPMENT COMMISSION. TO DEAL WITH SUCH SITUATIONS, THE US AND THE EC PROPOSED THE ESTABLISHMENT OF A CASE-BY-CASE PROCEDURE TO IDENTIFY INDIVIDUAL COUNTRIES WITH STRUCTURAL PROBLEMS, AND TO ASSURE APPROPRIATE ACTION TO CORRECT THEM IS TAKEN, BY BOTH LDC AND DONOR COUNTRIES. THIS PROPOSAL HAS THE FOLLOWING ELEMENTS:

-- AN LDC WHICH BELIEVED IT HAD A FINANCIAL AND ECONOMIC STRUCTURE WHICH IS HAMPERING DEVELOPMENT WOULD REQUEST AN EXAMINATION OF ITS SITUATION BY THE IBRD OR ANOTHER APPROPRIATE INSTITUTION.

-- THE RELEVANT INSTITUTION WOULD EXAMINE THE REQUEST IN DETAIL. THE ELEMENTS TO BE EXAMINED WOULD INCLUDE SUCH ITEMS AS RELATIVE POVERTY, DEPENDENCE ON ODA, EXPORT POTENTIAL, ABILITY TO FINANCE ESSENTIAL IMPORTS, COMPOSITION OF EXPORTS, AND THE COUNTRY'S BALANCE OF PAYMENTS. THE INSTITUTION WOULD ALSO CONSIDER THE COUNTRY'S ECONOMIC POLICY, THE PROSPECTS OF THE COUNTRY IN QUESTION, AND THE COUNTRY'S MEASURES FOR MONITORING EXTERNAL CREDITS AND OTHER MEASURES TO AVOID DEBT SERVICING DIFFICULTIES.

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TION OF DEBT SERVICE, THE APPROPRIATENESS OF THE COUNTRY'S DEVELOPMENT PLAN AND POLICIES, AND USAGE OF IMF FACILITIES.

-- THE INSTITUTION WOULD ANALYZE THE GENERAL ECONOMIC SITUATION OF THE COUNTRY, INCORPORATING THE IMF'S ASSESSMENT OF THE B/P, EXCHANGE RATE POLICIES AND PROSPECTS INCLUDING DEBT SERVICE. THE ANALYSIS WOULD MAKE AN APPRECIATION OF THE LEVEL OF ODA WHICH IS AVAILABLE IN APPROPRIATE FORMS, THE EFFECTIVENESS OF THE COUNTRY'S USE OF

BOTH DOMESTIC AND EXTERNAL RESOURCES FOR SAFEGUARDING ITS DEVELOPMENT PROSPECTS, AND THE COUNTRY'S MEASURES FOR MONITORING EXTERNAL CREDITS AND OTHER MEASURES TO AVOID DEBT SERVICING DIFFICULTIES.

-- IF THE ANALYSIS REVEALS THAT IN THE CONTEXT OF DEVELOPMENT POLICY, THE PROSPECTS OF THE COUNTRY IN QUESTION ARE SERIOUSLY HAMPERED, THE INSTITUTION WOULD CONTACT THE AID DONORS IN ORDER TO DISCUSS BY MUTUAL AGREEMENT, THE NEEDS OF THE DEVELOPING COUNTRY.

-- QTE: IN THE EVENT THE DONOR COUNTRIES FIND THE DEVELOPING COUNTRY WHICH HAS MADE A REQUEST IS ENCOUNTERING LONG-TERM FINANCIAL DIFFICULTIES IMPINGING UNDULY ON ITS DEVELOPMENT PROGRESS, THEY WOULD, TO THE BEST OF THEIR ABILITIES, ENHANCE ASSISTANCE EFFORTS IN RESPONSE TO A DEVELOPING COUNTRY DEMONSTRATING ITS WILLINGNESS

TO TAKE CORRECTIVE MEASURES ON ITS OWN BEHALF INSOFAR AS IT IS ABLE. SUCH AN EFFORT SHOULD GENERALLY BE DIRECTED TOWARDS INCREASING THE QUANTITY OF AID IN APPROPRIATE FORMS AND IMPROVING THE QUALITY SO THAT TERMS ARE APPROPRIATE TO THE ECONOMIC SITUATION AND THE DEVELOPMENT PROSPECTS OF THE RECIPIENT COUNTRY. UNQTE

-- QTE: AMONG THE VARIOUS MEASURES WHICH MIGHT BE TAKEN BY A DONOR COUNTRY FOR THIS PURPOSE, PROGRAM AID AND ANY FLEXIBLE FORMS OF QUICKLY DISBURSABLE AID WOULD BE CONSIDERED PREFERABLE TO ODA DEBT REORGANIZATION. HOWEVER, IN EXCEPTIONAL CASES, A DONOR COUNTRY MIGHT

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CHOOSE TO USE ODA DEBT REORGANIZATION ... UNQTE

4. THE US/EC PROPOSALS ARE RESPONSIVE TO THE UNIQUE CIRCUMSTANCES OF INDIVIDUAL DEVELOPING COUNTRIES; CAN BE IMPLEMENTED IMMEDIATELY TO ASSIST LDCS ONCE AGREED ON BY THE INTERNATIONAL COMMUNITY; AND ARE A PRAGMATIC RESPONSE TO LDC CONCERNS, PROVIDING FOR DONOR-COUNTRY ASSISTANCE FOR THOSE DEVELOPING COUNTRIES WHICH ARE ENCOUNTERING FINANCIAL DIFFICULTIES, OF WHICH DEBT IS AN ELEMENT. THIS DONOR-COUNTRY ASSISTANCE IS POSSIBLE BECAUSE THE US/EC PROPOSALS OFFER SUFFICIENT FLEXIBILITY FOR EACH DONOR COUNTRY TO ASSIST WITH THE MEANS AT ITS DISPOSAL.

5. A. IN THEIR PROPOSALS, THE G19 HAVE REVERTED TO THEIR MANILA DECLARATION DEMANDS FOR IMMEDIATE GENERALIZED DEBT RELIEF AND THE REFINANCING OF COMMERCIAL DEBT. THEIR PROPOSALS ALSO CALL FOR INDIVIDUAL COUNTRY RESCHEDULING ACCORDING TO RELATIVELY AUTOMATIC PROCEDURES

WELL IN ADVANCE OF CRISIS SITUATIONS. THESE RESCHEDULINGS WOULD EMPHASIZE THE IMPORTANCE OF DEBTORS' MAINTAINING THEIR DEVELOPMENT OBJECTIVES, AND WOULD MINIMIZE THE RELEVANCE OF THE DEBTORS' OWN EFFORTS TO AVOID DEBT PROBLEMS.

B. IN OUR VIEW, THE G19 DEBT PROPOSALS WOULD PROVE DISADVANTAGEOUS, PARTICULARLY TO THE MAJORITY OF MSA'S AND LDC'S: THE EFFECT OF GENERALIZED DEBT RELIEF WOULD BE TO REDISTRIBUTE AID FLOWS ON THE BASIS OF PAST LOAN COMMITMENTS AND DEBT SERVICE PAYMENTS, RATHER THAN ON

THE BASIS OF NEW PROJECTS AND PROGRAMS AND CURRENT NEEDS.

C. THIS REDISTRIBUTION EFFECT STEMS FROM THE FACT THAT, FOR MOST MAJOR CREDITORS, RESCHEDULING OF ODA LOANS IS FINANCED FROM THE SAME POOL OF FUNDS AS ARE NEW AID FLOWS, WHATEVER THAT POOL MAY BE IN THE FUTURE: DEBT RESCHEDULING DOES NOT NORMALLY GIVE RISE TO ADDITIONAL AID. THUS, A HANDFUL OF COUNTRIES WITH HEAVY DEBT SERVICE PAYMENTS ARISING FROM PAST AID COMMITMENTS WOULD BE THE MAJOR BENEFICIARIES FROM GENERALIZED DEBT RESCHEDULING, CONFIDENTIAL

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AT THE EXPENSE OF OTHER LLDC'S AND MSA'S WHICH HAVE SMALL AMOUNTS OF DEBT OUTSTANDING, YET MAY BE MORE IN NEED OF FINANCIAL ASSISTANCE AND HAVE NEW PROJECTS AND PROGRAMS ON THE DRAWING BOARD WHICH DEPEND ON FOREIGN AID FINANCING.

D. IN ORDER TO DISCOVER THE QUANTITATIVE DIMENSIONS OF THIS REDISTRIBUTION EFFECT, WE HAVE MADE USE OF DAC FIGURES FOR 1974, THE LAST YEAR FOR WHICH COMPLETE DATA ARE AVAILABLE, AND HAVE COMPARED GROSS BILATERAL OFFICIAL AID FLOWS AND DEBT SERVICE PAYMENTS OF ODA DEBT FOR INDIVIDUAL LLDC'S AND MSA'S. IN THAT YEAR, GROSS AID FLOWS FOR LLDC'S AND MSA'S TOTALLED SOME \$3.2 BILLION, WHILE TOTAL DEBT SERVICE PAYMENTS (PRINCIPAL AND INTEREST) WERE 670 MILLION DOLLARS. OF THE DEBT SERVICE, ABOUT ONE-HALF, OR SOME 340 MILLION DOLS, WAS ACCOUNTED FOR BY THREE COUNTRIES: EGYPT \$40 MILLION, INDIA \$218 MILLION, AND PAKISTAN \$80 MILLION. CANCELLATION OF THESE DEBT

SERVICE PAYMENTS WOULD REDUCE CORRESPONDINGLY THE AMOUNT OF FUNDS AVAILABLE FOR NEW AID. WE DO NOT KNOW HOW DONOR COUNTRIES WOULD CHOOSE TO ALLOCATE THEIR REMAINING FUNDS, BUT IT IS CLEAR THAT LLDC'S AND MSA'S WITH SMALL AMOUNTS OF DEBT SERVICE WOULD BE COMPETING FOR A SMALLER PIE. FOR MANY LLDC'S AND MSA'S THIS COULD MEAN THE CANCELLATION, POSTPONEMENT, OR STRINGING OUT OF PROGRAMS AND PROJECTS WHICH THEY DEEM VITAL TO THEIR DEVELOPMENT PROGRESS. WHILE IN THE FUTURE WE HOPE THE SIZE OF THE DEVELOPMENT ASSISTANCE "PIE" WILL INCREASE, THE RELATIVE

IMPACT OF GENERALIZED DEBT RESCHEDULING WOULD BE THE SAME, A RELATIVELY LARGER SHARE OF FUNDS WOULD BE PROVIDED TO A SMALL NUMBER OF COUNTRIES, AND THE REMAINING COUNTRIES' SHARE OF AID AND DEBT RELIEF WOULD BE RELATIVELY SMALLER.

6. THE G8 AND G19 ARE NOW REVIEWING ALL THESE PROPOSALS. WHEN CIEC RESUMES IN MID-OCTOBER, THERE WILL BE FURTHER EFFORTS TO DETERMINE HOW FLEXIBLE POSITIONS ARE.

TALKING POINTS:

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FOR EC AN8 EC MEMBER STATES.

7. WE BELIEVE THE JOINT US/EC EFFORT REPRESENTS AN IMPORTANT ACHIEVEMENT, AND FEEL STRONGLY THAT A FIRM UNITY OF POSITION BY THE US AND THE EC IS ESSENTIAL TO THE SAFEGUARDING OF DONOR-COUNTRY INTERESTS (AS WELL AS SOUND PRINCIPLES OF DEVELOPMENT) AS NEGOTIATIONS ON THE ISSUE OF LDC INDEBTEDNESS PROCEED.

8. IT MUST BE RECOGNIZED, HOWEVER, THAT SUCCESS IN CONSTRUCTING A COMMON US/EC POSITION WAS ACHIEVED AT THE COST OF LOSING NEGOTIATING FLEXIBILITY. EC COMMISSION OFFICIALS MADE IT CLEAR TO U.S. DELEGATES THAT AN EC POSITION ON DEBT WOULD BE TABLED IN SEPTEMBER, WITH OR WITHOUT U.S. CONCURRENCE. WE CONSIDERED IT TO BE TACTICALLY UNWISE TO PRESENT AT THE OUTSET WHAT WE REGARD AS A FINAL POSITION, BUT WERE UNABLE TO DETER THE EC. CONSEQUENTLY, IN ORDER TO AVOID OPEN DIVISION BETWEEN THE U.S. AND THE EC, WE AGREED TO TABLE THE JOINT US/EC DEBT PROPOSALS IN THEIR ENTIRETY.

9. AS A RESULT, THE US AND EC ARE NOW IN A DIFFICULT NEGOTIATING POSITION. BY LEADING WITH OUR FINAL PROPOSALS, WE HAVE LOST BARGAINING LEVERAGE. WE BELIEVE THAT IT IS ESSENTIAL THAT, HAVING CHOSEN THIS COURSE, THE U.S. AND EC STAND FIRM. OUR OBJECTIVE IN OCTOBER AND THROUGHOUT THE REMAINING MONTHS OF CIEC MUST BE

TO ELABORATE AND SELL THE PROPOSALS WE HAVE MADE, AND TO LEAVE NO DOUBT THAT IF THE G19 WANT THE CIEC TO ACHIEVE ANY PROGRESS ON DEBT, THE US/EC PROPOSALS MUST BE THE PRINCIPAL FOCUS OF DISCUSSION. WE MUST NOT RAISE ANY EXPECTATIONS THAT THE US/EC POSITION WILL SOFTEN.

10. BASED ON THESE ACTIONS AT THE SEPT. CIEC, WE ARE CONCERNED THAT OFFICIALS OF THE EC COMMISSION AND SOME MEMBER STATES MAY WANT TO YIELD FURTHER IN THE FACE OF

NEGOTIATING PRESSURE. WE WISH TO EMPHASIZE THAT THE U.S. WILL NOT SUPPORT ANY ACTIONS TO SOFTEN THE PRESENT

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US/EC POSITION ON DEBT. THE US/EC PROPOSAL IS AS FAR AS WE CAN GO. WHILE WE ARE PREPARED TO DISCUSS FULLY ANY REASONABLE SUGGESTIONS FOR CONSTRUCTIVELY ELABORATING ON THE PROPOSAL, THE U.S. WOULD DISMISS SUGGESTIONS TO BLEND

PARTS OF THE US/EC PROPOSALS WITH PARTS OF THE G19 AND/OR SWEDISH PROPOSALS, IN ORDER TO AVOID A RATCHETING-UP PROCESS WHICH, ONCE BEGUN, WOULD BE DIFFICULT TO STOP AND VIRTUALLY IMPOSSIBLE TO RETREAT FROM.

11. FOR OTHER G8 MEMBERS: DISCUSSIONS WITH OFFICIALS FROM OTHER MEMBERS OF THE G8 SHOULD STRESS THE FOLLOWING POINTS:

-- WE BELIEVE G8 UNITY IS ESSENTIAL IF WE ARE TO SAFEGUARD CREDITOR INTERESTS IN REMAINING MONTHS OF CIEC.

-- WE BELIEVE CURRENT US/EC PROPOSALS REPRESENT A CONSTRUCTIVE AND FORTHCOMING APPROACH WHICH REALISTICALLY ADDRESSES LDC PROBLEMS.

-- IF CIEC IS TO ACHIEVE PROGRESS ON "DEBT" ISSUE,

THE CURRENT US/EC PROPOSALS MUST BE THE FOCAL POINT OF CIEC DIALOGUE. WHILE WE ARE PREPARED TO DISCUSS FULLY

ANY REASONABLE SUGGESTIONS FOR CONSTRUCTIVELY ELABORATING ON PROPOSALS, WE REGARD THEM AS REPRESENTING AS FAR AS WE CAN GO ON THE DEBT ISSUE. THE U.S. WILL NOT OFFER FURTHER SOFTENING OF THE DEBT PROPOSALS.

-- WE BELIEVE THERE IS CONSIDERABLE DANGER THAT SOME MEMBERS OF THE G19 MAY VIEW THE CURRENT EC/US PROPOSALS IN THE CONTEXT OF "INITIAL BARGAINING POSITIONS" AND THAT THEY WILL STILL PURSUE DEMANDS FOR GENERALIZED DEBT RELIEF AS A MEANS OF EXTRACTING MORE CONCESSIONS FROM THE G8. IN FACT, THE CURRENT US/EC PROPOSAL IS AS FAR AS WE CAN GO AND WAS ONLY TABLED RELUCTANTLY BY THE U.S. IN SEPTEMBER.

-- THE U.S. IS CONTACTING LEADING G19 MEMBERS, EMPHASIZING THE FIRMLINESS OF USG POSITION AND URGING THEM TO CONFIDENTIAL

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PURSUE CONSTRUCTIVE DIALOGUE FOCUSED ON MERITS OF US/EC PROPOSALS. WE BELIEVE G8 POSITION IN REMAINDER CIEC DIALOGUE WOULD BE STRENGTHENED IF AS MANY OTHER MEMBERS OF THE G8 AS POSSIBLE (INCLUDING INDIVIDUAL MEMBER STATES OF THE EC) MADE SIMILAR REPRESENTATIONS.

12. FOR ALGIERS, JAKARTA, JIDDA, TEHRAN, CARACAS: IN DISCUSSION WITH HOST GOVERNMENT OFFICIALS, YOU SHOULD EMPHASIZE THE FOLLOWING:

-- THE U.S. REMAINS COMMITTED TO A PRODUCTIVE CIEC DIALOGUE, AND THE OBJECTIVES OF THAT DIALOGUE. WE ARE NOT ABLE TO ACCEPT THE CONCEPT OF GENERALIZED OR AUTO-

MATIC DEBT RELIEF. WE FIRMLY BELIEVE THIS CONCEPT IS UNWISE AND IS CONTRARY TO THE INTERESTS OF MOST DEVELOPING COUNTRIES AS WELL AS MORE GENERALLY TO THE FUNCTIONING OF THE WORLD ECONOMY.

-- WE BELIEVE THE US/EC PROPOSALS CONSTITUTE A CONSTRUCTIVE AND POSITIVE APPROACH TO THE FINANCING PROBLEMS OF THE NON-OIL LDCS.

-- CONSIDERABLE EFFORT WENT INTO THE PREPARATION OF THE US/EC PROPOSALS WITH THE VIEW TO TABLING THE MOST FORTHCOMING POSITION POSSIBLE. THE US/EC PROPOSALS SHOULD NOT THEREFORE BE INTERPRETED AS REPRESENTING INITIAL BARGAINING POSITIONS. TO DO SO WOULD BE A GROSS MISINTERPRETATION OF U.S. INTENTIONS AND WOULD INEVITABLY LEAD TO G19 EXPECTATIONS WHICH WILL NOT BE MET.

-- WE URGE THE G19 TO DROP THEIR DEMANDS FOR GENERALIZED DEBT RELIEF AND TO HELP FOCUS DISCUSSIONS ON DEBT UPON ELABORATION OF THE US/EC PROPOSALS. WE SEE NO POSSIBILITY OF A CIEC OUTCOME ENCLOSING THE G19 PROPOSALS, WHICH ARE UNACCEPTABLE TO THE U.S.

13. FOR CAIRO, NEW DELHI, CARACAS, BRASILIA, MEXICO, AND ISLAMABAD. WHILE DRAWING FROM PARA 12 ABOVE, YOU SHOULD ALSO EMPHASIZE THE FOLLOWING:

-- IN PREPARING THE US/EC PROPOSALS, DELEGATES RECOGNIZED THE NEED TO ADDRESS BOTH THE ACUTE DEBT CRISIS SITUATION AND THE LONGER-TERM STRUCTURAL, FINANCIAL AND RESOURCE TRANSFER PROBLEMS WHICH CONSTRAIN THE BALANCE OF PAYMENTS AND HAMPER DEVELOPMENT. WE THUS BELIEVE, THE US/EC PROPOSAL CAN PROVIDE CONCRETE BENEFITS TO NON-OIL LDCS.

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NIZED THE NEED TO ADDRESS BOTH THE ACUTE DEBT CRISIS SITUATION AND THE LONGER-TERM STRUCTURAL, FINANCIAL AND RESOURCE TRANSFER PROBLEMS WHICH CONSTRAIN THE BALANCE OF PAYMENTS AND HAMPER DEVELOPMENT. WE THUS BELIEVE, THE US/EC PROPOSAL CAN PROVIDE CONCRETE BENEFITS TO NON-OIL LDCS.

-- WE BELIEVE THE US/EC PROPOSALS IN THE FAC FOR ACUTE CRISIS SITUATIONS WILL ASSIST GREATLY IN ACCORDING EQUITABLE AND EFFICIENT TREATMENT TO DEBTORS' EXPERIENCING SEVERE DEBT PROBLEMS. THESE PROPOSALS IN NO WAY DETRACT FROM -- AND COULD IN SOME WAYS ENHANCE -- LDC CREDITWORTHINESS IN PRIVATE CAPITAL MARKETS. (BRASILIA

AND MEXICO CITY SHOULD EMPHASIZE THAT THE G19 PUBLICIZING OF DEMANDS FOR GENERALIZED OR AUTOMATIC RELIEF CANNOT HELP BUT INSERT AN ELEMENT OF CAUTION IN PRIVATE MARKET DELIBERATIONS. THIS IS A POINT ALREADY RECOGNIZED BY SOME BRAZILIAN AND MEXICAN OFFICIALS.)

-- WE BELIEVE THE US/EC DEBT PROPOSAL FOR DEVELOPMENT COMMISSION OFFERS SIGNIFICANT BENEFIT TO LDCS WITH

EXISTING OR POTENTIAL (I.E., INDIA) STRUCTURAL PROBLEMS. GIVEN THE EXISTING PROBLEMS WHICH AFFECT SOME LDGS AND THE UNCERTAINTIES REGARDING FUTURE PROSPECTS, WE BELIEVE THERE IS CONSIDERABLE MERIT IN THE ESTABLISHMENT OF PROCEDURES TO ASSIST IN THE EFFICIENT AND EQUITABLE ALLOCATION OF AID RESOURCES.

14. FOR LAGOS, NAIROBI, AND LUSAKA. WHILE DRAWING FROM PARAS 12 AND 13, YOU SHOULD ALSO EMPHASIZE THE FOLLOWING:

-- THE PROPOSALS TABLED BY THE G19 WOULD PROVIDE LITTLE BENEFIT TO AFRICAN COUNTRIES MOST OF WHOM HAVE SMALL ACCUMULATIONS OF DEBT. THREE COUNTRIES (INDIA, PAKISTAN AND EGYPT) ACCOUNT FOR MORE THAN 80 PERCENT OF THE 210 MILLION DOLLARS IN 1977 DEBT SERVICE ON ODA OWED

TO THE U.S. BY THE LLDCS/MSAS. BY WAY OF CONTRAST, THE LLDCS -- MANY OF WHICH ARE AFRICAN -- ARE PROJECTED CONFIDENTIAL

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TO ACCOUNT FOR LESS THAN 19 MILLION DOLS, OR 9 PERCENT OF THE TOTAL OWED TO THE U.S.

-- THESE SAME THREE COUNTRIES (INDIA, EGYPT AND PAKISTAN) ACCOUNTED FOR ABOUT HALF OF ODA DEBT SERVICE PAYMENTS (\$340 MILLION) PAID BY THE MSA'S/LLDC'S TO ALL DAC COUNTRIES IN 1974. CANCELLATION OF THESE DEBT SERVICE PAYMENTS WOULD REDUCE CORRESPONDINGLY THE AMOUNT OF FUNDS AVAILABLE FOR NEW AID. WE DO NOT KNOW HOW DONOR COUNTRIES WOULD CHOOSE TO ALLOCATE THEIR REMAINING FUNDS, BUT IT IS CLEAR THAT LLDC'S AND MSA'S WITH SMALL AMOUNTS OF DEBT SERVICE WOULD BE SPLITTING A SMALLER TOTAL AMOUNT OF NEW AID AND DEBT RELIEF THAN IF DISTRIBUTION WERE SOLELY ON THE BASIS OF NEW AID CONSIDERATIONS. FOR MANY LLDC'S AND MSA'S, THIS COULD MEAN THE CANCELLATION, POSTPONEMENT, OR STRINGING OUT OF PROGRAMS AND PROJECTS WHICH THEY DEEM VITAL TO THEIR DEVELOPMENT PROGRESS.

-- AFRICAN LDGS INTERESTS WOULD CLEARLY BE MUCH BETTER SERVED IF THE G19 FOCUSES ON THE OVERALL TRANSFER OF RESOURCES PROBLEM RATHER THAN ON ONE ELEMENT OF THIS TRANSFER (I.E., DEBT).

15. FOR LLDC'S AND MSA'S NOT IN CIEC:

A. OUR IMPRESSION IS THAT LLDC'S AND MSA'S NOT PARTICIPATING IN THE CIEC DISCUSSIONS AND HAVING SMALL DEBT SERVICE PAYMENTS (AS MOST OF THEM DO) ARE UNAWARE OF THE FACT THAT THE G19 PROPOSAL FOR DEBT CANCELLATION AND RESCHEDULING WOULD DISADVANTAGE THE VAST MAJORITY OF DEVELOPING COUNTRIES, BY LEAVING THEM TO COMPETE FOR A

SMALLER AID PIE. POSTS ARE REQUESTED TO DISCUSS THIS MATTER WITH APPROPRIATE HOST GOVERNMENT OFFICIALS, USING MATERIAL IN PARA 14 AND FOLLOWING:

-- THE G19 DEBT PROPOSALS WOULD PROVE DISADVANTAGEOUS, PARTICULARLY TO THE MAJORITY OF MSA'S AND LLDC'S: THE EFFECT OF GENERALIZED DEBT RELIEF WOULD BE TO REDISTRIBUTE AID FLOWS ON THE BASIS OF PAST LOAN COMMITMENTS AND DEBT SERVICE PAYMENTS, RATHER THAN ON THE BASIS OF CURRENT NEEDS, NEW PROJECTS, AND PROGRAMS.
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-- THE REASON FOR THIS IS THAT, FOR MOST MAJOR CREDITORS, RESCHEDULING OF ODA LOANS IS FINANCED FROM THE SAME POOL OF FUNDS AS ARE NEW AID FLOWS: DEBT RESCHEDULING DOES NOT GIVE RISE TO ADDITIONAL AID. THUS, A HANDFUL OF COUNTRIES WITH HEAVY DEBT SERVICE PAYMENTS ARISING FROM PAST AID COMMITMENTS WOULD BENEFIT FROM

GENERALIZED DEBT RESCHEDULING, AT THE EXPENSE OF THE MAJORITY OF OTHER LLDC'S AND MSA'S WHICH HAVE RELATIVELY SMALL AMOUNTS OF DEBT OUTSTANDING, YET MAY HAVE GREATER NEED FOR FINANCIAL ASSISTANCE AND NEW PROJECTS AND PROGRAMS ONCE DRAWING BOARD WHICH DEPEND ON FOREIGN AID FINANCING.

FOR G-19 COUNTRIES, ALSO ADD THE FOLLOWING:

16. THE G-24 COMMUNIQUE ISSUED IN MANILA ON OCTOBER 2 CONTAINS THE FOLLOWING SECTION ON "DEBT":

-- QTE: MINISTERS DISCUSSED THE PROBLEM OF EXTERNAL DEBT AND STRESSED THE IMPORTANCE OF ACCEPTING THE GENERAL PRINCIPLE, NAMELY, THAT TO THOSE COUNTRIES NOT PRESENTLY HAVING ACCESS TO CAPITAL MARKETS, NET TRANSFERS OF OFFICIAL DEVELOPMENT ASSISTANCE FROM INDUSTRIALIZED COUNTRIES SHOULD BE MAINTAINED AT A LEVEL COMPATIBLE WITH A REASONABLE RATE OF GROWTH IN SUCH COUNTRIES. UNQTE

THIS PARAGRAPH SETS FORTH A VIEW STRIKINGLY DIFFERENT FROM THE G19 DEMANDS WE HAVE BEEN ENCOUNTERING IN CIEC. YOU SHOULD TAKE ADVANTAGE OF YOUR DISCUSSIONS WITH HOST

OFFICIALS IN G19 CAPITALS TO WELCOME STATEMENT AS CONSISTENT WITH GENERAL USG ASSESSMENT OF HOW BEST TO PROCEED REGARDING LDC FINANCING PROBLEMS. ROBINSON

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TO AMEMBASSY THE HAGUE IMMEDIATE

C O N F I D E N T I A L STATE 251805

FOLLOWING REPEAT STATE 251805 ACTION ALGIERS BERN BONN
BRASILIA BRUSSELS EC BRUSSELS CAIRO CANBERRA
CARACAS COLOMBO COPENHAGEN DACCA DUBLIN
ISLAMABAD JIDDA LAGOS LONDON LUSAKA LUXEMBOURG MEXICO NAIROBI
NEW DELHI
OTTAWA PARIS ROME SANA STOCKHOLM TEHRAN TOKYO
INFO GENEVA OECD PARIS 09 OCT 76

QUOTE

C O N F I D E N T I A L STATE 251805

GENEVA FOR PREEG

E.O. 11652: GDS

TAGS: EFIN, CIEC, OECD

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THAN DEBT WILL ALSO BE DISCUSSED, THE SUBJECT OF DEBT
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OTHER CIEC PARTICIPANTS. BASED ON THE FOLLOWING BACK-
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EXPLAIN AND ENCOURAGE SUPPORT FOR USG POSITION.

BACKGROUND:

2. THE SEPTEMBER SESSION OF THE CIEC AGREED ON A WORK

PROGRAM FOR THE SECOND HALF OF CIEC, AND THE SUBMISSION OF DEBT PROPOSALS BY THE US/EC AND G19 IN BOTH THE FINANCIAL AFFAIRS COMMISSION (FAC) AND THE DEVELOPMENT COMMISSION. THERE ARE, HOWEVER, MAJOR DIFFERENCES BETWEEN THE PROPOSALS SUBMITTED BY THE US/EC AND THE G19.

3. THE US/EC PROPOSALS DISTINGUISH CLEARLY BETWEEN THE ACUTE DEBT CRISIS SITUATION (I.E., INVOLVING DEFAULT OR IMMINENT DEFAULT) WHERE DEBT RELIEF IS, IN EFFECT, A "LAST RESORT" MEASURE, AND A SECOND TYPE OF LONGER-TERM SITUATION WHERE AVAILABILITY AND MANAGEMENT OF RESOURCES HAMPERS DEVELOPMENT.

A. FOR THE ACUTE DEBT CRISIS SITUATION -- WHICH IS BEING ADDRESSED IN THE FAC -- THE US/EC PROPOSALS FOCUS ON CASE-BY-CASE ACTION BY THE TRADITIONAL CREDITOR CLUB MECHANISM. THE APPROACH RECOGNIZES THAT BOTH CREDITORS AND DEBTORS HAVE RESPONSIBILITIES IN SUCH SITUATIONS, AND STRESSES THE IMPORTANCE OF THE DEBTOR COUNTRY'S OWN EFFORTS AT ECONOMIC ADJUSTMENT. IT ALSO SUGGESTS, PURSUANT TO UNCTAD RESOLUTION 94(IV), "FEATURES" WHICH COULD BE USED TO GUIDE RESCHEDULING OPERATIONS. THESE "FEATURES" ARE DESIGNED TO PROTECT THE INTERESTS OF BOTH DEBTORS AND CREDITORS, AND TO INSURE EQUITABLE TREATMENT AMONG DEBTORS.

B. THE ISSUE OF REMEDIAL MEASURES TO DEAL WITH LDC FINANCIAL SITUATIONS OF A LONGER-TERM NATURE (WHERE AN ADVERSE STRUCTURE OF THE BALANCE OF PAYMENTS CAN HAMPER DEVELOPMENT) IS BEING ADDRESSED IN THE DEVELOPMENT COMMISSION. TO DEAL WITH SUCH SITUATIONS, THE US AND THE EC PROPOSED THE ESTABLISHMENT OF A CASE-BY-CASE PROCEDURE TO IDENTIFY INDIVIDUAL COUNTRIES WITH STRUCTURAL PROBLEMS, AND TO ASSURE APPROPRIATE ACTION TO CORRECT THEM IS TAKEN, CONFIDENTIAL

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BY BOTH LDC AND DONOR COUNTRIES. THIS PROPOSAL HAS THE FOLLOWING ELEMENTS:

-- AN LDC WHICH BELIEVED IT HAD A FINANCIAL AND ECONOMIC STRUCTURE WHICH IS HAMPERING DEVELOPMENT WOULD REQUEST AN EXAMINATION OF ITS SITUATION BY THE IBRD OR ANOTHER APPROPRIATE INSTITUTION.

-- THE RELEVANT INSTITUTION WOULD EXAMINE THE REQUEST IN DETAIL. THE ELEMENTS TO BE EXAMINED WOULD INCLUDE SUCH ITEMS AS RELATIVE POVERTY, DEPENDENCE ON ODA, EXPORT POTENTIAL, ABILITY TO FINANCE ESSENTIAL IMPORTS, COMPOSITION OF DEBT SERVICE, THE APPROPRIATENESS OF THE COUNTRY'S DEVELOPMENT PLAN AND POLICIES, AND USAGE OF IMF FACILITIES.

-- THE INSTITUTION WOULD ANALYZE THE GENERAL ECONOMIC SITUATION OF THE COUNTRY, INCORPORATING THE IMF'S ASSES-

MENT OF THE B/P, EXCHANGE RATE POLICIES AND PROSPECTS INCLUDING DEBT SERVICE. THE ANALYSIS WOULD MAKE AN APPRECIATION OF THE LEVEL OF ODA WHICH IS AVAILABLE IN APPROPRIATE FORMS, THE EFFECTIVENESS OF THE COUNTRY'S USE OF

BOTH DOMESTIC AND EXTERNAL RESOURCES FOR SAFEGUARDING ITS DEVELOPMENT PROSPECTS, AND THE COUNTRY'S MEASURES FOR MONITORING EXTERNAL CREDITS AND OTHER MEASURES TO AVOID DEBT SERVICING DIFFICULTIES.

-- IF THE ANALYSIS REVEALS THAT IN THE CONTEXT OF DEVELOPMENT POLICY, THE PROSPECTS OF THE COUNTRY IN QUESTION ARE SERIOUSLY HAMPERED, THE INSTITUTION WOULD CONTACT THE AID DONORS IN ORDER TO DISCUSS BY MUTUAL AGREEMENT, THE NEEDS OF THE DEVELOPING COUNTRY.

-- QTE: IN THE EVENT THE DONOR COUNTRIES FIND THE DEVELOPING COUNTRY WHICH HAS MADE A REQUEST IS ENCOUNTERING LONG-TERM FINANCIAL DIFFICULTIES IMPINGING UNDULY ON ITS DEVELOPMENT PROGRESS, THEY WOULD, TO THE BEST OF THEIR ABILITIES, ENHANCE ASSISTANCE EFFORTS IN RESPONSE TO A DEVELOPING COUNTRY DEMONSTRATING ITS WILLINGNESS

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TO TAKE CORRECTIVE MEASURES ON ITS OWN BEHALF INSOFAR AS IT IS ABLE. SUCH AN EFFORT SHOULD GENERALLY BE DIRECTED TOWARDS INCREASING THE QUANTITY OF AID IN APPROPRIATE FORMS AND IMPROVING THE QUALITY SO THAT TERMS ARE APPROPRIATE TO THE ECONOMIC SITUATION AND THE DEVELOPMENT PROSPECTS OF THE RECIPIENT COUNTRY. UNQTE

-- QTE: AMONG THE VARIOUS MEASURES WHICH MIGHT BE TAKEN BY A DONOR COUNTRY FOR THIS PURPOSE, PROGRAM AID AND ANY FLEXIBLE FORMS OF QUICKLY DISBURSABLE AID WOULD BE CONSIDERED PREFERABLE TO ODA DEBT REORGANIZATION. HOWEVER, IN EXCEPTIONAL CASES, A DONOR COUNTRY MIGHT CHOOSE TO USE ODA DEBT REORGANIZATION ... UNQTE

4. THE US/EC PROPOSALS ARE RESPONSIVE TO THE UNIQUE CIRCUMSTANCES OF INDIVIDUAL DEVELOPING COUNTRIES; CAN BE IMPLEMENTED IMMEDIATELY TO ASSIST LDCS ONCE AGREED ON BY THE INTERNATIONAL COMMUNITY; AND ARE A PRAGMATIC RESPONSE TO LDC CONCERNS, PROVIDING FOR DONOR-COUNTRY ASSISTANCE FOR THOSE DEVELOPING COUNTRIES WHICH ARE ENCOUNTERING FINANCIAL DIFFICULTIES, OF WHICH DEBT IS AN ELEMENT. THIS DONOR-COUNTRY ASSISTANCE IS POSSIBLE BECAUSE THE US/EC PROPOSALS OFFER SUFFICIENT FLEXIBILITY FOR EACH DONOR COUNTRY TO ASSIST WITH THE MEANS AT ITS DISPOSAL.

5. A. IN THEIR PROPOSALS, THE G19 HAVE REVERTED TO THEIR

MANILA DECLARATION DEMANDS FOR IMMEDIATE GENERALIZED DEBT RELIEF AND THE REFINANCING OF COMMERCIAL DEBT. THEIR PROPOSALS ALSO CALL FOR INDIVIDUAL COUNTRY RESCHEDULING ACCORDING TO RELATIVELY AUTOMATIC PROCEDURES

WELL IN ADVANCE OF CRISIS SITUATIONS. THESE RESCHEDULINGS WOULD EMPHASIZE THE IMPORTANCE OF DEBTORS' MAINTAINING THEIR DEVELOPMENT OBJECTIVES, AND WOULD MINIMIZE THE RELEVANCE OF THE DEBTORS' OWN EFFORTS TO AVOID DEBT PROBLEMS.

B. IN OUR VIEW, THE G19 DEBT PROPOSALS WOULD PROVE DIS-ADVANTAGEOUS, PARTICULARLY TO THE MAJORITY OF MSA'S AND LLDC'S: THE EFFECT OF GENERALIZED DEBT RELIEF WOULD BE CONFIDENTIAL

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TO REDISTRIBUTE AID FLOWS ON THE BASIS OF PAST LOAN COMMITMENTS AND DEBT SERVICE PAYMENTS, RATHER THAN ON THE BASIS OF NEW PROJECTS AND PROGRAMS AND CURRENT NEEDS.

C. THIS REDISTRIBUTION EFFECT STEMS FROM THE FACT THAT, FOR MOST MAJOR CREDITORS, RESCHEDULING OF ODA LOANS IS FINANCED FROM THE SAME POOL OF FUNDS AS ARE NEW AID FLOWS, WHATEVER THAT POOL MAY BE IN THE FUTURE: DEBT RESCHEDULING DOES NOT NORMALLY GIVE RISE TO ADDITIONAL AID. THUS, A HANDFUL OF COUNTRIES WITH HEAVY DEBT SERVICE PAYMENTS ARISING FROM PAST AID COMMITMENTS WOULD BE THE MAJOR BENEFICIARIES FROM GENERALIZED DEBT RESCHEDULING, AT THE EXPENSE OF OTHER LLDC'S AND MSA'S WHICH HAVE SMALL AMOUNTS OF DEBT OUTSTANDING, YET MAY BE MORE IN NEED OF FINANCIAL ASSISTANCE AND HAVE NEW PROJECTS AND PROGRAMS ON THE DRAWING BOARD WHICH DEPEND ON FOREIGN AID FINANCING.

D. IN ORDER TO DISCOVER THE QUANTITATIVE DIMENSIONS OF THIS REDISTRIBUTION EFFECT, WE HAVE MADE USE OF DAC FIGURES FOR 1974, THE LAST YEAR FOR WHICH COMPLETE DATA ARE AVAILABLE, AND HAVE COMPARED GROSS BILATERAL OFFICIAL AID FLOWS AND DEBT SERVICE PAYMENTS OF ODA DEBT FOR INDIVIDUAL LLDC'S AND MSA'S. IN THAT YEAR, GROSS AID FLOWS FOR LLDC'S AND MSA'S TOTALLED SOME \$3.2 BILLION, WHILE TOTAL DEBT SERVICE PAYMENTS (PRINCIPAL AND INTEREST) WERE 670 MILLION DOLLARS. OF THE DEBT SERVICE, ABOUT ONE-HALF, OR SOME 340 MILLION DOLS, WAS ACCOUNTED FOR BY THREE COUNTRIES: EGYPT \$40 MILLION, INDIA \$218 MILLION, AND PAKISTAN \$80 MILLION. CANCELLATION OF THESE DEBT

SERVICE PAYMENTS WOULD REDUCE CORRESPONDINGLY THE AMOUNT OF FUNDS AVAILABLE FOR NEW AID. WE DO NOT KNOW HOW DONOR COUNTRIES WOULD CHOOSE TO ALLOCATE THEIR REMAINING FUNDS, BUT IT IS CLEAR THAT LLDC'S AND MSA'S WITH SMALL AMOUNTS OF DEBT SERVICE WOULD BE COMPETING FOR A SMALLER PIE. FOR MANY LLDC'S AND MSA'S THIS COULD MEAN THE CAN-

CELLATION, POSTPONEMENT, OR STRINGING OUT OF PROGRAMS AND PROJECTS WHICH THEY DEEM VITAL TO THEIR DEVELOPMENT PROGRESS. WHILE IN THE FUTURE WE HOPE THE SIZE OF THE DEVELOPMENT ASSISTANCE "PIE" WILL INCREASE, THE RELATIVE

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IMPACT OF GENERALIZED DEBT RESCHEDULING WOULD BE THE SAME, A RELATIVELY LARGER SHARE OF FUNDS WOULD BE PROVIDED TO A SMALL NUMBER OF COUNTRIES, AND THE REMAINING COUNTRIES' SHARE OF AID AND DEBT RELIEF WOULD BE RELATIVELY SMALLER.

6. THE G8 AND G19 ARE NOW REVIEWING ALL THESE PROPOSALS. WHEN CIEC RESUMES IN MID-OCTOBER, THERE WILL BE FURTHER EFFORTS TO DETERMINE HOW FLEXIBLE POSITIONS ARE.

TALKING POINTS:

FOR EC AN8 EC MEMBER STATES.

7. WE BELIEVE THE JOINT US/EC EFFORT REPRESENTS AN IMPORTANT ACHIEVEMENT, AND FEEL STRONGLY THAT A FIRM UNITY OF POSITION BY THE US AND THE EC IS ESSENTIAL TO THE SAFEGUARDING OF DONOR-COUNTRY INTERESTS (AS WELL AS SOUND PRINCIPLES OF DEVELOPMENT) AS NEGOTIATIONS ON THE ISSUE OF LDC INDEBTEDNESS PROCEED.

8. IT MUST BE RECOGNIZED, HOWEVER, THAT SUCCESS IN CONSTRUCTING A COMMON US/EC POSITION WAS ACHIEVED AT THE COST OF LOSING NEGOTIATING FLEXIBILITY. EC COMMISSION OFFICIALS MADE IT CLEAR TO U.S. DELEGATES THAT AN EC POSITION ON DEBT WOULD BE TABLED IN SEPTEMBER, WITH OR WITHOUT U.S. CONCURRENCE. WE CONSIDERED IT TO BE TACTICALLY UNWISE TO PRESENT AT THE OUTSET WHAT WE REGARD AS A FINAL POSITION, BUT WERE UNABLE TO DETER THE EC. CONSEQUENTLY, IN ORDER TO AVOID OPEN DIVISION BETWEEN THE U.S. AND THE EC, WE AGREED TO TABLE THE JOINT US/EC DEBT PROPOSALS IN THEIR ENTIRETY.

9. AS A RESULT, THE US AND EC ARE NOW IN A DIFFICULT NEGOTIATING POSITION. BY LEADING WITH OUR FINAL PROPOSALS, WE HAVE LOST BARGAINING LEVERAGE. WE BELIEVE THAT IT IS ESSENTIAL THAT, HAVING CHOSEN THIS COURSE, THE U.S. AND EC STAND FIRM. OUR OBJECTIVE IN OCTOBER AND THROUGHOUT THE REMAINING MONTHS OF CIEC MUST BE

TO ELABORATE AND SELL THE PROPOSALS WE HAVE MADE, AND
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TO LEAVE NO DOUBT THAT IF THE G19 WANT THE CIEC TO ACHIEVE ANY PROGRESS ON DEBT, THE US/EC PROPOSALS MUST BE THE PRINCIPAL FOCUS OF DISCUSSION. WE MUST NOT RAISE ANY EXPECTATIONS THAT THE US/EC POSITION WILL SOFTEN.

10. BASED ON THESE ACTIONS AT THE SEPT. CIEC, WE ARE CONCERNED THAT OFFICIALS OF THE EC COMMISSION AND SOME MEMBER STATES MAY WANT TO YIELD FURTHER IN THE FACE OF

NEGOTIATING PRESSURE. WE WISH TO EMPHASIZE THAT THE U.S. WILL NOT SUPPORT ANY ACTIONS TO SOFTEN THE PRESENT

US/EC POSITION ON DEBT. THE US/EC PROPOSAL IS AS FAR AS WE CAN GO. WHILE WE ARE PREPARED TO DISCUSS FULLY ANY REASONABLE SUGGESTIONS FOR CONSTRUCTIVELY ELABORATING ON THE PROPOSAL, THE U.S. WOULD DISMISS SUGGESTIONS TO BLEND PARTS OF THE US/EC PROPOSALS WITH PARTS OF THE G19 AND/OR SWEDISH PROPOSALS, IN ORDER TO AVOID A RATCHETING-UP PROCESS WHICH, ONCE BEGUN, WOULD BE DIFFICULT TO STOP AND VIRTUALLY IMPOSSIBLE TO RETREAT FROM.

11. FOR OTHER G8 MEMBERS: DISCUSSIONS WITH OFFICIALS FROM OTHER MEMBERS OF THE G8 SHOULD STRESS THE FOLLOWING POINTS:

-- WE BELIEVE G8 UNITY IS ESSENTIAL IF WE ARE TO SAFEGUARD CREDITOR INTERESTS IN REMAINING MONTHS OF CIEC.

-- WE BELIEVE CURRENT US/EC PROPOSALS REPRESENT A CONSTRUCTIVE AND FORTHCOMING APPROACH WHICH REALISTICALLY ADDRESSES LDC PROBLEMS.

-- IF CIEC IS TO ACHIEVE PROGRESS ON "DEBT" ISSUE,

THE CURRENT US/EC PROPOSALS MUST BE THE FOCAL POINT OF CIEC DIALOGUE. WHILE WE ARE PREPARED TO DISCUSS FULLY

ANY REASONABLE SUGGESTIONS FOR CONSTRUCTIVELY ELABORATING ON PROPOSALS, WE REGARD THEM AS REPRESENTING AS FAR AS WE CAN GO ON THE DEBT ISSUE. THE U.S. WILL NOT OFFER FURTHER SOFTENING OF THE DEBT PROPOSALS.
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-- WE BELIEVE THERE IS CONSIDERABLE DANGER THAT SOME MEMBERS OF THE G19 MAY VIEW THE CURRENT EC/US PROPOSALS IN THE CONTEXT OF "INITIAL BARGAINING POSITIONS" AND THAT THEY WILL STILL PURSUE DEMANDS FOR GENERALIZED DEBT RELIEF AS A MEANS OF EXTRACTING MORE CONCESSIONS FROM THE G8. IN FACT, THE CURRENT US/EC PROPOSAL IS AS FAR AS WE CAN GO AND WAS ONLY TABLED RELUCTANTLY BY THE U.S. IN SEPTEMBER.

-- THE U.S. IS CONTACTING LEADING G19 MEMBERS, EMPHASIZING THE FIRMLINESS OF USG POSITION AND URGING THEM TO PURSUE CONSTRUCTIVE DIALOGUE FOCUSED ON MERITS OF US/EC PROPOSALS. WE BELIEVE G8 POSITION IN REMAINDER CIEC DIALOGUE WOULD BE STRENGTHENED IF AS MANY OTHER MEMBERS OF THE G8 AS POSSIBLE (INCLUDING INDIVIDUAL MEMBER STATES OF THE EC) MADE SIMILAR REPRESENTATIONS.

12. FOR ALGIERS, JAKARTA, JIDDA, TEHRAN, CARACAS: IN DISCUSSION WITH HOST GOVERNMENT OFFICIALS, YOU SHOULD EMPHASIZE THE FOLLOWING:

-- THE U.S. REMAINS COMMITTED TO A PRODUCTIVE CIEC DIALOGUE, AND THE OBJECTIVES OF THAT DIALOGUE. WE ARE NOT ABLE TO ACCEPT THE CONCEPT OF GENERALIZED OR AUTOMATIC DEBT RELIEF. WE FIRMLY BELIEVE THIS CONCEPT IS UNWISE AND IS CONTRARY TO THE INTERESTS OF MOST DEVELOPING COUNTRIES AS WELL AS MORE GENERALLY TO THE FUNCTIONING OF THE WORLD ECONOMY.

-- WE BELIEVE THE US/EC PROPOSALS CONSTITUTE A CONSTRUCTIVE AND POSITIVE APPROACH TO THE FINANCING PROBLEMS OF THE NON-OIL LDCS.

-- CONSIDERABLE EFFORT WENT INTO THE PREPARATION OF THE US/EC PROPOSALS WITH THE VIEW TO TABLING THE MOST FORTHCOMING POSITION POSSIBLE. THE US/EC PROPOSALS SHOULD NOT THEREFORE BE INTERPRETED AS REPRESENTING INITIAL BARGAINING POSITIONS. TO DO SO WOULD BE A GROSS MISINTERPRETATION OF U.S. INTENTIONS AND WOULD INEVITABLY LEAD TO G19 EXPECTATIONS WHICH WILL NOT BE MET.
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-- WE URGE THE G19 TO DROP THEIR DEMANDS FOR GENERALIZED DEBT RELIEF AND TO HELP FOCUS DISCUSSIONS ON DEBT UPON ELABORATION OF THE US/EC PROPOSALS. WE SEE NO POSSIBILITY OF A CIEC OUTCOME ENCLOSING THE G19 PROPOSALS, WHICH ARE UNACCEPTABLE TO THE U.S.

13. FOR CAIRO, NEW DELHI, CARACAS, BRASILIA, MEXICO, AND ISLAMABAD. WHILE DRAWING FROM PARA 12 ABOVE, YOU SHOULD ALSO EMPHASIZE THE FOLLOWING:

-- IN PREPARING THE US/EC PROPOSALS, DELEGATES RECOGNIZED THE NEED TO ADDRESS BOTH THE ACUTE DEBT CRISIS SITUATION AND THE LONGER-TERM STRUCTURAL, FINANCIAL AND RESOURCE TRANSFER PROBLEMS WHICH CONSTRAIN THE BALANCE OF PAYMENTS AND HAMPER DEVELOPMENT. WE THUS BELIEVE, THE US/EC PROPOSAL CAN PROVIDE CONCRETE BENEFITS TO NON-OIL LDCS.

-- WE BELIEVE THE US/EC PROPOSALS IN THE FAC FOR ACUTE

CRISIS SITUATIONS WILL ASSIST GREATLY IN ACCORDING
EQUITABLE AND EFFICIENT TREATMENT TO DEBTORS' EXPERI-
ENCING SEVERE DEBT PROBLEMS. THESE PROPOSALS IN NO WAY
DETRACT FROM -- AND COULD IN SOME WAYS ENHANCE -- LDC
CREDITWORTHINESS IN PRIVATE CAPITAL MARKETS. (BRASILIA

AND MEXICO CITY SHOULD EMPHASIZE THAT THE G19 PUBLICIZING
OF DEMANDS FOR GENERALIZED OR AUTOMATIC RELIEF CANNOT
HELP BUT INSERT AN ELEMENT OF CAUTION IN PRIVATE MARKET
DELIBERATIONS. THIS IS A POINT ALREADY RECOGNIZED BY
SOME BRAZILIAN AND MEXICAN OFFICIALS.)

-- WE BELIEVE THE US/EC DEBT PROPOSAL FOR DEVELOPMENT
COMMISSION OFFERS SIGNIFICANT BENEFIT TO LDCS WITH
EXISTING OR POTENTIAL (I.E., INDIA) STRUCTURAL PROBLEMS.
GIVEN THE EXISTING PROBLEMS WHICH AFFECT SOME LDCS AND
THE UNCERTAINTIES REGARDING FUTURE PROSPECTS, WE BELIEVE
THERE IS CONSIDERABLE MERIT IN THE ESTABLISHMENT OF PRO-
CEDURES TO ASSIST IN THE EFFICIENT AND EQUITABLE ALLOCA-
TION OF AID RESOURCES.

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14. FOR LAGOS, NAIROBI, AND LUSAKA. WHILE DRAWING FROM
PARAS 12 AND 13, YOU SHOULD ALSO EMPHASIZE THE
FOLLOWING:

-- THE PROPOSALS TABLED BY THE G19 WOULD PROVIDE LITTLE
BENEFIT TO AFRICAN COUNTRIES MOST OF WHOM HAVE SMALL
ACCUMULATIONS OF DEBT. THREE COUNTRIES (INDIA, PAKISTAN
AND EGYPT) ACCOUNT FOR MORE THAN 80 PERCENT OF THE
210 MILLION DOLLARS IN 1977 DEBT SERVICE ON ODA OWED

TO THE U.S. BY THE LLDCS/MSAS. BY WAY OF CONTRAST,
THE LLDCS -- MANY OF WHICH ARE AFRICAN -- ARE PROJECTED
TO ACCOUNT FOR LESS THAN 19 MILLION DOLS, OR 9 PERCENT
OF THE TOTAL OWED TO THE U.S.

-- THESE SAME THREE COUNTRIES (INDIA, EGYPT AND PAKIS-
TAN) ACCOUNTED FOR ABOUT HALF OF ODA DEBT SERVICE PAY-
MENTS (\$340 MILLION) PAID BY THE MSA'S/LLDC'S TO ALL
DAC COUNTRIES IN 1974. CANCELLATION OF THESE DEBT SERVICE
PAYMENTS WOULD REDUCE CORRESPONDINGLY THE AMOUNT OF FUNDS
AVAILABLE FOR NEW AID. WE DO NOT KNOW HOW DONOR COUNTRIES
WOULD CHOOSE TO ALLOCATE THEIR REMAINING FUNDS, BUT
IT IS CLEAR THAT LLDC'S AND MSA'S WITH SMALL AMOUNTS OF
DEBT SERVICE WOULD BE SPLITTING A SMALLER TOTAL AMOUNT
OF NEW AID AND DEBT RELIEF THAN IF DISTRIBUTION WERE
SOLELY ON THE BASIS OF NEW AID CONSIDERATIONS. FOR MANY
LLOC'S AND MSA'S, THIS COULD MEAN THE CANCELLATION, POST-
PONEMENT, OR STRINGING OUT OF PROGRAMS AND PROJECTS WHICH
THEY DEEM VITAL TO THEIR DEVELOPMENT PROGRESS.

-- AFRICAN LLDCS INTERESTS WOULD CLEARLY BE MUCH BETTER SERVED IF THE G19 FOCUSES ON THE OVERALL TRANSFER OF RESOURCES PROBLEM RATHER THAN ON ONE ELEMENT OF THIS TRANSFER (I.E., DEBT).

15. FOR LLDC'S AND MSA'S NOT IN CIEC:

A. OUR IMPRESSION IS THAT LLDC'S AND MSA'S NOT PARTICIPATING IN THE CIEC DISCUSSIONS AND HAVING SMALL DEBT SERVICE PAYMENTS (AS MOST OF THEM DO) ARE UNAWARE OF THE FACT THAT THE G19 PROPOSAL FOR DEBT CANCELLATION
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AND RESCHEDULING WOULD DISADVANTAGE THE VAST MAJORITY OF DEVELOPING COUNTRIES, BY LEAVING THEM TO COMPETE FOR A SMALLER AID PIE. POSTS ARE REQUESTED TO DISCUSS THIS MATTER WITH APPROPRIATE HOST GOVERNMENT OFFICIALS, USING MATERIAL IN PARA 14 AND FOLLOWING:

-- THE G19 DEBT PROPOSALS WOULD PROVE DISADVANTAGEOUS, PARTICULARLY TO THE MAJORITY OF MSA'S AND LLDC'S: THE EFFECT OF GENERALIZED DEBT RELIEF WOULD BE TO REDISTRIBUTE AID FLOWS ON THE BASIS OF PAST LOAN COMMITMENTS AND DEBT SERVICE PAYMENTS, RATHER THAN ON THE BASIS OF CURRENT NEEDS, NEW PROJECTS, AND PROGRAMS.

-- THE REASON FOR THIS IS THAT, FOR MOST MAJOR CREDITORS, RESCHEDULING OF ODA LOANS IS FINANCED FROM THE SAME POOL OF FUNDS AS ARE NEW AID FLOWS: DEBT RESCHEDULING DOES NOT GIVE RISE TO ADDITIONAL AID. THUS, A HANDFUL OF COUNTRIES WITH HEAVY DEBT SERVICE PAYMENTS ARISING FROM PAST AID COMMITMENTS WOULD BENEFIT FROM

GENERALIZED DEBT RESCHEDULING, AT THE EXPENSE OF THE MAJORITY OF OTHER LLDC'S AND MSA'S WHICH HAVE RELATIVELY SMALL AMOUNTS OF DEBT OUTSTANDING, YET MAY HAVE GREATER NEED FOR FINANCIAL ASSISTANCE AND NEW PROJECTS AND PROGRAMS ONCE DRAWING BOARD WHICH DEPEND ON FOREIGN AID FINANCING.

FOR G-19 COUNTRIES, ALSO ADD THE FOLLOWING:

16. THE G-24 COMMUNIQUE ISSUED IN MANILA ON OCTOBER 2 CONTAINS THE FOLLOWING SECTION ON "DEBT":

-- QTE: MINISTERS DISCUSSED THE PROBLEM OF EXTERNAL DEBT AND STRESSED THE IMPORTANCE OF ACCEPTING THE GENERAL PRINCIPLE, NAMELY, THAT TO THOSE COUNTRIES NOT PRESENTLY HAVING ACCESS TO CAPITAL MARKETS, NET TRANSFERS OF OFFICIAL DEVELOPMENT ASSISTANCE FROM INDUSTRIALIZED COUNTRIES SHOULD BE MAINTAINED AT A LEVEL COMPATIBLE WITH A REASON-

ABLE RATE OF GROWTH IN SUCH COUNTRIES. UNQTE

THIS PARAGRAPH SETS FORTH A VIEW STRIKINGLY DIFFERENT
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FROM THE G19 DEMANDS WE HAVE BEEN ENCOUNTERING IN CIEC.
YOU SHOULD TAKE ADVANTAGE OF YOUR DISCUSSIONS WITH HOST

OFFICIALS IN G19 CAPITALS TO WELCOME STATEMENT AS CON-
SISTENT WITH GENERAL USG ASSESSMENT OF HOW BEST TO PROCEED
REGARDING LDC FINANCING PROBLEMS. ROBINSON.
UNQUOTE KISSINGER.

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C O N F I D E N T I A L STATE 251805

FOLLOWING REPEAT STATE 251805 ACTION ALGIERS BERN BONN
BRASILIA BRUSSELS EC BRUSSELS CAIRO CANBERRA CARACAS
COLOMBO COPENHAGEN DACCA DUBLIN ISLAMABAD JIDDA LAGOS LONDON
LUSAKA LUXEMBOURG MEXICO NAIROBI NEW DELHI OTTAWA PARIS
ROME SANA STOCKHOLM TEHRAN TOKYO INFO GENEVA OECD PARIS
9 OCT 76

QUOTE C O N F I D E N T I A L STATE 251805

GENEVA FOR PREEG

E.O. 11652: GDS

TAGS: EFIN, CIEC, OECD

SUBJECT: CIEC DISCUSSION ON DEBT

1. SUMMARY: CIEC DISCUSSION ON "THE PROBLEMS OF INDEBT-

EDNESS OF DEVELOPING COUNTRIES" WILL BE AN IMPORTANT ITEM AT THE OCTOBER CIEC. WHILE ISSUES OTHER THAN DEBT WILL ALSO BE DISCUSSED, THE SUBJECT OF DEBT WILL RECEIVE PARTICULAR ATTENTION. IT IS VERY IMPORTANT THAT USG VIEWS ON THIS MAJOR ISSUE BE UNDERSTOOD FULLY BY OTHER CIEC PARTICIPANTS. BASED ON THE FOLLOWING BACKGROUND INFORMATION, AND THE SUGGESTED TALKING POINTS ALSO

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PROVIDED, REQUEST YOU CONTACT APPROPRIATE HIGH OFFICIALS IN BOTH THE FOREIGN AFFAIRS AND FINANCE MINISTRIES TO EXPLAIN AND ENCOURAGE SUPPORT FOR USG POSITION.

BACKGROUND:

2. THE SEPTEMBER SESSION OF THE CIEC AGREED ON A WORK PROGRAM FOR THE SECOND HALF OF CIEC, AND THE SUBMISSION OF DEBT PROPOSALS BY THE US/EC AND G19 IN BOTH THE FINANCIAL AFFAIRS COMMISSION (FAC) AND THE DEVELOPMENT COMMISSION. THERE ARE, HOWEVER, MAJOR DIFFERENCES BETWEEN THE PROPOSALS SUBMITTED BY THE US/EC AND THE G19.

3. THE US/EC PROPOSALS DISTINGUISH CLEARLY BETWEEN THE ACUTE DEBT CRISIS SITUATION (I.E., INVOLVING DEFAULT OR IMMINENT DEFAULT) WHERE DEBT RELIEF IS, IN EFFECT, A "LAST RESORT" MEASURE, AND A SECOND TYPE OF LONGER-TERM SITUATION WHERE AVAILABILITY AND MANAGEMENT OF RESOURCES HAMPERS DEVELOPMENT.

A. FOR THE ACUTE DEBT CRISIS SITUATION -- WHICH IS BEING ADDRESSED IN THE FAC -- THE US/EC PROPOSALS FOCUS ON CASE-BY-CASE ACTION BY THE TRADITIONAL CREDITOR CLUB MECHANISM. THE APPROACH RECOGNIZES THAT BOTH CREDITORS AND DEBTORS HAVE RESPONSIBILITIES IN SUCH SITUATIONS, AND STRESSES THE IMPORTANCE OF THE DEBTOR COUNTRY'S OWN EFFORTS AT ECONOMIC ADJUSTMENT. IT ALSO SUGGESTS, PURSUANT TO UNCTAD RESOLUTION 94(IV), "FEATURES" WHICH COULD BE USED TO GUIDE RESCHEDULING OPERATIONS. THESE "FEATURES" ARE DESIGNED TO PROTECT THE INTERESTS OF BOTH DEBTORS AND CREDITORS, AND TO INSURE EQUITABLE TREATMENT AMONG DEBTORS.

B. THE ISSUE OF REMEDIAL MEASURES TO DEAL WITH LDC FINANCIAL SITUATIONS OF A LONGER-TERM NATURE (WHERE AN ADVERSE STRUCTURE OF THE BALANCE OF PAYMENTS CAN HAMPER DEVELOPMENT) IS BEING ADDRESSED IN THE DEVELOPMENT COMMISSION. TO DEAL WITH SUCH SITUATIONS, THE US AND THE EC PROPOSED THE ESTABLISHMENT OF A CASE-BY-CASE PROCEDURE TO IDENTIFY INDIVIDUAL COUNTRIES WITH STRUCTURAL PROBLEMS, AND TO ASSURE APPROPRIATE ACTION TO CORRECT THEM IS TAKEN, BY BOTH LDC AND DONOR COUNTRIES. THIS PROPOSAL HAS THE FOLLOWING ELEMENTS:

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-- AN LDC WHICH BELIEVED IT HAD A FINANCIAL AND ECONOMIC STRUCTURE WHICH IS HAMPERING DEVELOPMENT WOULD REQUEST AN EXAMINATION OF ITS SITUATION BY THE IBRD OR ANOTHER APPROPRIATE INSTITUTION.

-- THE RELEVANT INSTITUTION WOULD EXAMINE THE REQUEST IN DETAIL. THE ELEMENTS TO BE EXAMINED WOULD INCLUDE SUCH ITEMS AS RELATIVE POVERTY, DEPENDENCE ON ODA, EXPORT POTENTIAL, ABILITY TO FINANCE ESSENTIAL IMPORTS, COMPOSITION OF DEBT SERVICE, THE APPROPRIATENESS OF THE COUNTRY'S DEVELOPMENT PLAN AND POLICIES, AND USAGE OF IMF FACILITIES.

-- THE INSTITUTION WOULD ANALYZE THE GENERAL ECONOMIC SITUATION OF THE COUNTRY, INCORPORATING THE IMF'S ASSESSMENT OF THE B/P, EXCHANGE RATE POLICIES AND PROSPECTS INCLUDING DEBT SERVICE. THE ANALYSIS WOULD MAKE AN APPRECIATION OF THE LEVEL OF ODA WHICH IS AVAILABLE IN APPROPRIATE FORMS, THE EFFECTIVENESS OF THE COUNTRY'S USE OF

BOTH DOMESTIC AND EXTERNAL RESOURCES FOR SAFEGUARDING ITS DEVELOPMENT PROSPECTS, AND THE COUNTRY'S MEASURES FOR MONITORING EXTERNAL CREDITS AND OTHER MEASURES TO AVOID DEBT SERVICING DIFFICULTIES.

-- IF THE ANALYSIS REVEALS THAT IN THE CONTEXT OF DEVELOPMENT POLICY, THE PROSPECTS OF THE COUNTRY IN QUESTION ARE SERIOUSLY HAMPERED, THE INSTITUTION WOULD CONTACT THE AID DONORS IN ORDER TO DISCUSS BY MUTUAL AGREEMENT, THE NEEDS OF THE DEVELOPING COUNTRY.

-- QTE: IN THE EVENT THE DONOR COUNTRIES FIND THE DEVELOPING COUNTRY WHICH HAS MADE A REQUEST IS ENCOUNTERING LONG-TERM FINANCIAL DIFFICULTIES IMPINGING UNDULY ON ITS DEVELOPMENT PROGRESS, THEY WOULD, TO THE BEST OF THEIR ABILITIES, ENHANCE ASSISTANCE EFFORTS IN RESPONSE TO A DEVELOPING COUNTRY DEMONSTRATING ITS WILLINGNESS

TO TAKE CORRECTIVE MEASURES ON ITS OWN BEHALF INSOFAR AS IT IS ABLE. SUCH AN EFFORT SHOULD GENERALLY BE CONFIDENTIAL

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DIRECTED TOWARDS INCREASING THE QUANTITY OF AID IN APPROPRIATE FORMS AND IMPROVING THE QUALITY SO THAT TERMS ARE APPROPRIATE TO THE ECONOMIC SITUATION AND THE DEVELOPMENT PROSPECTS OF THE RECIPIENT COUNTRY. UNQTE

-- QTE: AMONG THE VARIOUS MEASURES WHICH MIGHT BE TAKEN BY A DONOR COUNTRY FOR THIS PURPOSE, PROGRAM AID AND ANY FLEXIBLE FORMS OF QUICKLY DISBURSABLE AID WOULD

BE CONSIDERED PREFERABLE TO ODA DEBT REORGANIZATION. HOWEVER, IN EXCEPTIONAL CASES, A DONOR COUNTRY MIGHT CHOOSE TO USE ODA DEBT REORGANIZATION ... UNQTE

4. THE US/EC PROPOSALS ARE RESPONSIVE TO THE UNIQUE CIRCUMSTANCES OF INDIVIDUAL DEVELOPING COUNTRIES; CAN BE IMPLEMENTED IMMEDIATELY TO ASSIST LDCS ONCE AGREED ON BY THE INTERNATIONAL COMMUNITY; AND ARE A PRAGMATIC RESPONSE TO LDC CONCERNS, PROVIDING FOR DONOR-COUNTRY ASSISTANCE FOR THOSE DEVELOPING COUNTRIES WHICH ARE ENCOUNTERING FINANCIAL DIFFICULTIES, OF WHICH DEBT IS AN ELEMENT. THIS DONOR-COUNTRY ASSISTANCE IS POSSIBLE BECAUSE THE US/EC PROPOSALS OFFER SUFFICIENT FLEXIBILITY FOR EACH DONOR COUNTRY TO ASSIST WITH THE MEANS AT ITS DISPOSAL.

5. A. IN THEIR PROPOSALS, THE G19 HAVE REVERTED TO THEIR MANILA DECLARATION DEMANDS FOR IMMEDIATE GENERALIZED DEBT RELIEF AND THE REFINANCING OF COMMERCIAL DEBT. THEIR PROPOSALS ALSO CALL FOR INDIVIDUAL COUNTRY RESCHEDULING ACCORDING TO RELATIVELY AUTOMATIC PROCEDURES

WELL IN ADVANCE OF CRISIS SITUATIONS. THESE RESCHEDULINGS WOULD EMPHASIZE THE IMPORTANCE OF DEBTORS' MAINTAINING THEIR DEVELOPMENT OBJECTIVES, AND WOULD MINIMIZE THE RELEVANCE OF THE DEBTORS' OWN EFFORTS TO AVOID DEBT PROBLEMS.

B. IN OUR VIEW, THE G19 DEBT PROPOSALS WOULD PROVE DISADVANTAGEOUS, PARTICULARLY TO THE MAJORITY OF MSA'S AND LDC'S: THE EFFECT OF GENERALIZED DEBT RELIEF WOULD BE TO REDISTRIBUTE AID FLOWS ON THE BASIS OF PAST LOAN COMMITMENTS AND DEBT SERVICE PAYMENTS, RATHER THAN ON CONFIDENTIAL

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THE BASIS OF NEW PROJECTS AND PROGRAMS AND CURRENT NEEDS.

C. THIS REDISTRIBUTION EFFECT STEMS FROM THE FACT THAT, FOR MOST MAJOR CREDITORS, RESCHEDULING OF ODA LOANS IS FINANCED FROM THE SAME POOL OF FUNDS AS ARE NEW AID FLOWS, WHATEVER THAT POOL MAY BE IN THE FUTURE: DEBT RESCHEDULING DOES NOT NORMALLY GIVE RISE TO ADDITIONAL AID. THUS, A HANDFUL OF COUNTRIES WITH HEAVY DEBT SERVICE PAYMENTS ARISING FROM PAST AID COMMITMENTS WOULD BE THE MAJOR BENEFICIARIES FROM GENERALIZED DEBT RESCHEDULING, AT THE EXPENSE OF OTHER LLDC'S AND MSA'S WHICH HAVE SMALL AMOUNTS OF DEBT OUTSTANDING, YET MAY BE MORE IN NEED OF FINANCIAL ASSISTANCE AND HAVE NEW PROJECTS AND PROGRAMS ON THE DRAWING BOARD WHICH DEPEND ON FOREIGN AID FINANCING.

D. IN ORDER TO DISCOVER THE QUANTITATIVE DIMENSIONS OF THIS REDISTRIBUTION EFFECT, WE HAVE MADE USE OF DAC

FIGURES FOR 1974, THE LAST YEAR FOR WHICH COMPLETE DATA ARE AVAILABLE, AND HAVE COMPARED GROSS BILATERAL OFFICIAL AID FLOWS AND DEBT SERVICE PAYMENTS OF ODA DEBT FOR INDIVIDUAL LLDC'S AND MSA'S. IN THAT YEAR, GROSS AID FLOWS FOR LLDC'S AND MSA'S TOTALLED SOME \$3.2 BILLION, WHILE TOTAL DEBT SERVICE PAYMENTS (PRINCIPAL AND INTEREST) WERE 670 MILLION DOLLARS. OF THE DEBT SERVICE, ABOUT ONE-HALF, OR SOME 340 MILLION DOLS, WAS ACCOUNTED FOR BY THREE COUNTRIES: EGYPT \$40 MILLION, INDIA \$218 MILLION, AND PAKISTAN \$80 MILLION. CANCELLATION OF THESE DEBT

SERVICE PAYMENTS WOULD REDUCE CORRESPONDINGLY THE AMOUNT OF FUNDS AVAILABLE FOR NEW AID. WE DO NOT KNOW HOW DONOR COUNTRIES WOULD CHOOSE TO ALLOCATE THEIR REMAINING FUNDS, BUT IT IS CLEAR THAT LLDC'S AND MSA'S WITH SMALL AMOUNTS OF DEBT SERVICE WOULD BE COMPETING FOR A SMALLER PIE. FOR MANY LLDC'S AND MSA'S THIS COULD MEAN THE CANCELLATION, POSTPONEMENT, OR STRINGING OUT OF PROGRAMS AND PROJECTS WHICH THEY DEEM VITAL TO THEIR DEVELOPMENT PROGRESS. WHILE IN THE FUTURE WE HOPE THE SIZE OF THE DEVELOPMENT ASSISTANCE "PIE" WILL INCREASE, THE RELATIVE

IMPACT OF GENERALIZED DEBT RESCHEDULING WOULD BE THE SAME, A RELATIVELY LARGER SHARE OF FUNDS WOULD BE PRO-CONFIDENTIAL

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VIDED TO A SMALL NUMBER OF COUNTRIES, AND THE REMAINING COUNTRIES' SHARE OF AID AND DEBT RELIEF WOULD BE RELATIVELY SMALLER.

6. THE G8 AND G19 ARE NOW REVIEWING ALL THESE PROPOSALS. WHEN CIEC RESUMES IN MID-OCTOBER, THERE WILL BE FURTHER EFFORTS TO DETERMINE HOW FLEXIBLE POSITIONS ARE.

TALKING POINTS:

FOR EC AN8 EC MEMBER STATES.

7. WE BELIEVE THE JOINT US/EC EFFORT REPRESENTS AN IMPORTANT ACHIEVEMENT, AND FEEL STRONGLY THAT A FIRM UNITY OF POSITION BY THE US AND THE EC IS ESSENTIAL TO THE SAFEGUARDING OF DONOR-COUNTRY INTERESTS (AS WELL AS SOUND PRINCIPLES OF DEVELOPMENT) AS NEGOTIATIONS ON THE ISSUE OF LDC INDEBTEDNESS PROCEED.

8. IT MUST BE RECOGNIZED, HOWEVER, THAT SUCCESS IN CONSTRUCTING A COMMON US/EC POSITION WAS ACHIEVED AT THE COST OF LOSING NEGOTIATING FLEXIBILITY, EC COMMISSION OFFICIALS MADE IT CLEAR TO U.S. DELEGATES THAT AN EC POSITION ON DEBT WOULD BE TABLED IN SEPTEMBER, WITH OR WITHOUT U.S. CONCURRENCE. WE CONSIDERED IT TO BE TACTICALLY UNWISE TO PRESENT AT THE OUTSET WHAT WE REGARD

AS A FINAL POSITION, BUT WERE UNABLE TO DETER THE EC. CONSEQUENTLY, IN ORDER TO AVOID OPEN DIVISION BETWEEN THE U.S. AND THE EC, WE AGREED TO TABLE THE JOINT US/EC DEBT PROPOSALS IN THEIR ENTIRETY.

9. AS A RESULT, THE US AND EC ARE NOW IN A DIFFICULT NEGOTIATING POSITION. BY LEADING WITH OUR FINAL PROPOSALS, WE HAVE LOST BARGAINING LEVERAGE. WE BELIEVE THAT IT IS ESSENTIAL THAT, HAVING CHOSEN THIS COURSE, THE U.S. AND EC STAND FIRM. OUR OBJECTIVE IN OCTOBER AND THROUGHOUT THE REMAINING MONTHS OF CIEC MUST BE

TO ELABORATE AND SELL THE PROPOSALS WE HAVE MADE, AND TO LEAVE NO DOUBT THAT IF THE G19 WANT THE CIEC TO ACHIEVE ANY PROGRESS ON DEBT, THE US/EC PROPOSALS MUST BE CONFIDENTIAL

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BE THE PRINCIPAL FOCUS OF DISCUSSION. WE MUST NOT RAISE ANY EXPECTATIONS THAT THE US/EC POSITION WILL SOFTEN.

10. BASED ON THESE ACTIONS AT THE SEPT. CIEC, WE ARE CONCERNED THAT OFFICIALS OF THE EC COMMISSION AND SOME MEMBER STATES MAY WANT TO YIELD FURTHER IN THE FACE OF

NEGOTIATING PRESSURE. WE WISH TO EMPHASIZE THAT THE U.S. WILL NOT SUPPORT ANY ACTIONS TO SOFTEN THE PRESENT

US/EC POSITION ON DEBT. THE US/EC PROPOSAL IS AS FAR AS WE CAN GO. WHILE WE ARE PREPARED TO DISCUSS FULLY ANY REASONABLE SUGGESTIONS FOR CONSTRUCTIVELY ELABORATING ON THE PROPOSAL, THE U.S. WOULD DISMISS SUGGESTIONS TO BLEND PARTS OF THE US/EC PROPOSALS WITH PARTS OF THE G19 AND/OR SWEDISH PROPOSALS, IN ORDER TO AVOID A RATCHETING-UP PROCESS WHICH, ONCE BEGUN, WOULD BE DIFFICULT TO STOP AND VIRTUALLY IMPOSSIBLE TO RETREAT FROM.

11. FOR OTHER G8 MEMBERS: DISCUSSIONS WITH OFFICIALS FROM OTHER MEMBERS OF THE G8 SHOULD STRESS THE FOLLOWING POINTS:

-- WE BELIEVE G8 UNITY IS ESSENTIAL IF WE ARE TO SAFEGUARD CREDITOR INTERESTS IN REMAINING MONTHS OF CIEC.

-- WE BELIEVE CURRENT US/EC PROPOSALS REPRESENT A CONSTRUCTIVE AND FORTHCOMING APPROACH WHICH REALISTICALLY ADDRESSES LDC PROBLEMS.

-- IF CIEC IS TO ACHIEVE PROGRESS ON "DEBT" ISSUE,

THE CURRENT US/EC PROPOSALS MUST BE THE FOCAL POINT OF CIEC DIALOGUE. WHILE WE ARE PREPARED TO DISCUSS FULLY

ANY REASONABLE SUGGESTIONS FOR CONSTRUCTIVELY ELABORATING ON PROPOSALS, WE REGARD THEM AS REPRESENTING AS FAR AS WE CAN GO ON THE DEBT ISSUE. THE U.S. WILL NOT OFFER FURTHER SOFTENING OF THE DEBT PROPOSALS.

-- WE BELIEVE THERE IS CONSIDERABLE DANGER THAT SOME
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MEMBERS OF THE G19 MAY VIEW THE CURRENT EC/US PROPOSALS IN THE CONTEXT OF "INITIAL BARGAINING POSITIONS" AND THAT THEY WILL STILL PURSUE DEMANDS FOR GENERALIZED DEBT RELIEF AS A MEANS OF EXTRACTING MORE CONCESSIONS FROM THE G8. IN FACT, THE CURRENT US/EC PROPOSAL IS AS FAR AS WE CAN GO AND WAS ONLY TABLED RELUCTANTLY BY THE U.S. IN SEPTEMBER.

-- THE U.S. IS CONTACTING LEADING G19 MEMBERS, EMPHASIZING THE FIRMNESS OF USG POSITION AND URGING THEM TO PURSUE CONSTRUCTIVE DIALOGUE FOCUSED ON MERITS OF US/EC PROPOSALS. WE BELIEVE G8 POSITION IN REMAINDER CIEC DIALOGUE WOULD BE STRENGTHENED IF AS MANY OTHER MEMBERS OF THE G8 AS POSSIBLE (INCLUDING INDIVIDUAL MEMBER STATES OF THE EC) MADE SIMILAR REPRESENTATIONS.

12. FOR ALGIERS, JAKARTA, JIDDA, TEHRAN, CARACAS: IN DISCUSSION WITH HOST GOVERNMENT OFFICIALS, YOU SHOULD EMPHASIZE THE FOLLOWING:

-- THE U.S. REMAINS COMMITTED TO A PRODUCTIVE CIEC DIALOGUE, AND THE OBJECTIVES OF THAT DIALOGUE. WE ARE NOT ABLE TO ACCEPT THE CONCEPT OF GENERALIZED OR AUTOMATIC DEBT RELIEF. WE FIRMLY BELIEVE THIS CONCEPT IS UNWISE AND IS CONTRARY TO THE INTERESTS OF MOST DEVELOPING COUNTRIES AS WELL AS MORE GENERALLY TO THE FUNCTIONING OF THE WORLD ECONOMY.

-- WE BELIEVE THE US/EC PROPOSALS CONSTITUTE A CONSTRUCTIVE AND POSITIVE APPROACH TO THE FINANCING PROBLEMS OF THE NON-OIL LDCS.

-- CONSIDERABLE EFFORT WENT INTO THE PREPARATION OF THE US/EC PROPOSALS WITH THE VIEW TO TABLING THE MOST FORTHCOMING POSITION POSSIBLE. THE US/EC PROPOSALS SHOULD NOT THEREFORE BE INTERPRETED AS REPRESENTING INITIAL BARGAINING POSITIONS. TO DO SO WOULD BE A GROSS MISINTERPRETATION OF U.S. INTENTIONS AND WOULD INEVITABLY LEAD TO G19 EXPECTATIONS WHICH WILL NOT BE MET.

-- WE URGE THE G19 TO DROP THEIR DEMANDS FOR GENERAL-
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IZED DEBT RELIEF AND TO HELP FOCUS DISCUSSIONS ON DEBT UPON ELABORATION OF THE US/EC PROPOSALS. WE SEE NO POSSIBILITY OF A CIEC OUTCOME ENCLOSING THE G19 PROPOSALS, WHICH ARE UNACCEPTABLE TO THE U.S.

13. FOR CAIRO, NEW DELHI, CARACAS, BRASILIA, MEXICO, AND ISLAMABAD. WHILE DRAWING FROM PARA 12 ABOVE, YOU SHOULD ALSO EMPHASIZE THE FOLLOWING:

-- IN PREPARING THE US/EC PROPOSALS, DELEGATES RECOGNIZED THE NEED TO ADDRESS BOTH THE ACUTE DEBT CRISIS SITUATION AND THE LONGER-TERM STRUCTURAL, FINANCIAL AND RESOURCE TRANSFER PROBLEMS WHICH CONSTRAIN THE BALANCE OF PAYMENTS AND HAMPER DEVELOPMENT. WE THUS BELIEVE, THE US/EC PROPOSAL CAN PROVIDE CONCRETE BENEFITS TO NON-OIL LDCS.

-- WE BELIEVE THE US/EC PROPOSALS IN THE FAC FOR ACUTE CRISIS SITUATIONS WILL ASSIST GREATLY IN ACCORDING EQUITABLE AND EFFICIENT TREATMENT TO DEBTORS' EXPERIENCING SEVERE DEBT PROBLEMS. THESE PROPOSALS IN NO WAY DETRACT FROM -- AND COULD IN SOME WAYS ENHANCE -- LDC CREDITWORTHINESS IN PRIVATE CAPITAL MARKETS. (BRASILIA

AND MEXICO CITY SHOULD EMPHASIZE THAT THE G19 PUBLICIZING OF DEMANDS FOR GENERALIZED OR AUTOMATIC RELIEF CANNOT HELP BUT INSERT AN ELEMENT OF CAUTION IN PRIVATE MARKET DELIBERATIONS. THIS IS A POINT ALREADY RECOGNIZED BY SOME BRAZILIAN AND MEXICAN OFFICIALS.)

-- WE BELIEVE THE US/EC DEBT PROPOSAL FOR DEVELOPMENT COMMISSION OFFERS SIGNIFICANT BENEFIT TO LDCS WITH EXISTING OR POTENTIAL (I.E., INDIA) STRUCTURAL PROBLEMS. GIVEN THE EXISTING PROBLEMS WHICH AFFECT SOME LDCS AND THE UNCERTAINTIES REGARDING FUTURE PROSPECTS, WE BELIEVE THERE IS CONSIDERABLE MERIT IN THE ESTABLISHMENT OF PROCEDURES TO ASSIST IN THE EFFICIENT AND EQUITABLE ALLOCATION OF AID RESOURCES.

14. FOR LAGOS, NAIROBI, AND LUSAKA. WHILE DRAWING FROM PARAS 12 AND 13, YOU SHOULD ALSO EMPHASIZE THE CONFIDENTIAL

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FOLLOWING:

-- THE PROPOSALS TABLED BY THE G19 WOULD PROVIDE LITTLE BENEFIT TO AFRICAN COUNTRIES MOST OF WHOM HAVE SMALL ACCUMULATIONS OF DEBT. THREE COUNTRIES (INDIA, PAKISTAN AND EGYPT) ACCOUNT FOR MORE THAN 80 PERCENT OF THE 210 MILLION DOLLARS IN 1977 DEBT SERVICE ON ODA OWED

TO THE U.S. BY THE LLDCS/MSAS. BY WAY OF CONTRAST, THE LLDCS -- MANY OF WHICH ARE AFRICAN -- ARE PROJECTED TO ACCOUNT FOR LESS THAN 19 MILLION DOLS, OR 9 PERCENT OF THE TOTAL OWED TO THE U.S.

-- THESE SAME THREE COUNTRIES (INDIA, EGYPT AND PAKISTAN) ACCOUNTED FOR ABOUT HALF OF ODA DEBT SERVICE PAYMENTS (\$340 MILLION) PAID BY THE MSA'S/LLDC'S TO ALL DAC COUNTRIES IN 1974. CANCELLATION OF THESE DEBT SERVICE PAYMENTS WOULD REDUCE CORRESPONDINGLY THE AMOUNT OF FUNDS AVAILABLE FOR NEW AID. WE DO NOT KNOW HOW DONOR COUNTRIES WOULD CHOOSE TO ALLOCATE THEIR REMAINING FUNDS, BUT IT IS CLEAR THAT LLDC'S AND MSA'S WITH SMALL AMOUNTS OF DEBT SERVICE WOULD BE SPLITTING A SMALLER TOTAL AMOUNT OF NEW AID AND DEBT RELIEF THAN IF DISTRIBUTION WERE SOLELY ON THE BASIS OF NEW AID CONSIDERATIONS. FOR MANY LLDC'S AND MSA'S, THIS COULD MEAN THE CANCELLATION, POSTPONEMENT, OR STRINGING OUT OF PROGRAMS AND PROJECTS WHICH THEY DEEM VITAL TO THEIR DEVELOPMENT PROGRESS.

-- AFRICAN LLDCS INTERESTS WOULD CLEARLY BE MUCH BETTER SERVED IF THE G19 FOCUSES ON THE OVERALL TRANSFER OF RESOURCES PROBLEM RATHER THAN ON ONE ELEMENT OF THIS TRANSFER (I.E., DEBT).

15. FOR LLDC'S AND MSA'S NOT IN CIEC:

A. OUR IMPRESSION IS THAT LLDC'S AND MSA'S NOT PARTICIPATING IN THE CIEC DISCUSSIONS AND HAVING SMALL DEBT SERVICE PAYMENTS (AS MOST OF THEM DO) ARE UNAWARE OF THE FACT THAT THE G19 PROPOSAL FOR DEBT CANCELLATION AND RESCHEDULING WOULD DISADVANTAGE THE VAST MAJORITY OF DEVELOPING COUNTRIES, BY LEAVING THEM TO COMPETE FOR A

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SMALLER AID PIE. POSTS ARE REQUESTED TO DISCUSS THIS MATTER WITH APPROPRIATE HOST GOVERNMENT OFFICIALS, USING MATERIAL IN PARA 14 AND FOLLOWING:

-- THE G19 DEBT PROPOSALS WOULD PROVE DISADVANTAGEOUS, PARTICULARLY TO THE MAJORITY OF MSA'S AND LLDC'S: THE EFFECT OF GENERALIZED DEBT RELIEF WOULD BE TO REDISTRIBUTE AID FLOWS ON THE BASIS OF PAST LOAN COMMITMENTS AND DEBT SERVICE PAYMENTS, RATHER THAN ON THE BASIS OF CURRENT NEEDS, NEW PROJECTS, AND PROGRAMS.

-- THE REASON FOR THIS IS THAT, FOR MOST MAJOR CREDITORS, RESCHEDULING OF ODA LOANS IS FINANCED FROM THE SAME POOL OF FUNDS AS ARE NEW AID FLOWS: DEBT RESCHEDULING DOES NOT GIVE RISE TO ADDITIONAL AID. THUS, A HANDFUL OF COUNTRIES WITH HEAVY DEBT SERVICE PAYMENTS ARISING FROM PAST AID COMMITMENTS WOULD BENEFIT FROM

GENERALIZED DEBT RESCHEDULING, AT THE EXPENSE OF THE MAJORITY OF OTHER LLDC'S AND MSA'S WHICH HAVE RELATIVELY SMALL AMOUNTS OF DEBT OUTSTANDING, YET MAY HAVE GREATER NEED FOR FINANCIAL ASSISTANCE AND NEW PROJECTS AND PROGRAMS ONCE DRAWING BOARD WHICH DEPEND ON FOREIGN AID FINANCING.

FOR G-19 COUNTRIES, ALSO ADD THE FOLLOWING:

16. THE G-24 COMMUNIQUE ISSUED IN MANILA ON OCTOBER 2 CONTAINS THE FOLLOWING SECTION ON "DEBT":

-- QTE: MINISTERS DISCUSSED THE PROBLEM OF EXTERNAL DEBT AND STRESSED THE IMPORTANCE OF ACCEPTING THE GENERAL PRINCIPLE, NAMELY, THAT TO THOSE COUNTRIES NOT PRESENTLY HAVING ACCESS TO CAPITAL MARKETS, NET TRANSFERS OF OFFICIAL DEVELOPMENT ASSISTANCE FROM INDUSTRIALIZED COUNTRIES SHOULD BE MAINTAINED AT A LEVEL COMPATIBLE WITH A REASONABLE RATE OF GROWTH IN SUCH COUNTRIES. UNQTE

THIS PARAGRAPH SETS FORTH A VIEW STRIKINGLY DIFFERENT FROM THE G19 DEMANDS WE HAVE BEEN ENCOUNTERING IN CIEC. YOU SHOULD TAKE ADVANTAGE OF YOUR DISCUSSIONS WITH HOST
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OFFICIALS IN G19 CAPITALS TO WELCOME STATEMENT AS CONSISTENT WITH GENERAL USG ASSESSMENT OF HOW BEST TO PROCEED REGARDING LDC FINANCING PROBLEMS. ROBINSON UNQUOTE
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